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CALIFORNIA STATE TREASURER PHIL ANGELIDES

FOR IMMEDIATE RELEASE
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AS PRESIDENT BUSH VISITS CALIFORNIA, STATE TREASURER ANGELIDES URGES BUSH TO REJECT PLANS TO RAISE TAXES ON MIDDLE-CLASS CALIFORNIANS

In Letter to President, Treasurer Calls on Bush to Reject Proposals That Would Eliminate the Federal Deduction for State and Local Taxes and Cap the Mortgage Interest Deduction

SACRAMENTO, CA – In a letter to President Bush, California State Treasurer Phil Angelides today called on the President to reject proposals from his Advisory Panel on Federal Tax Reform that would harm California and middle-class families. On Tuesday, the panel recommended eliminating the federal income tax deduction for state and local taxes and capping the mortgage interest deduction.

"As you visit California today, I hope you will listen to the concerns of middle-class Californians about the higher federal income taxes they would have to pay under the proposals approved earlier this week by your Advisory Panel on Federal Tax Reform," Angelides wrote. "After you listen to Californians, I hope you will reject the panel's recommendations for capping the mortgage interest deduction and eliminating the deduction for state and local taxes."

"The Panel's recommendations are a double-barreled blast aimed squarely at California and the middle class," Angelides added.

The elimination of the federal income tax deduction for state and local taxes would hike taxes on Californians by $13 billion a year. The panel also recommended capping the federal mortgage interest deduction. That deduction would be turned into a 15 percent tax credit capped at the ceiling for Federal Home Administration (FHA) mortgage insurance in the taxpayer's county. Today, that cap is $312,895 in much of the State, including the Bay Area, Los Angeles, Sacramento, and San Diego, far below the price of a median-priced home in the state, which was $568,890 for single-family homes sold in August. By contrast, the cap in the state of Texas would be $172,000, compared to a median home price of $140,000.

"For example, for a family purchasing a median-priced home, earning $90,000 a year, and paying taxes in the 25 percent bracket, the panel's proposal would result in a federal tax increase of around $4,900 a year," Angelides added. "But the proposal would have much less or no impact in other parts of the country, where the ceiling on mortgage interest would be near or above the median home price. This recommendation of your panel would hit hard at middle-class families in California."

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The text of Treasurer Angelides' letter to President Bush is below.

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PHILIP ANGELIDES
Treasurer
State of California

October 20, 2005

The Honorable George W. Bush
President of the United States
The White House
1600 Pennsylvania Avenue NW
Washington, D.C. 20500

Dear President Bush:

As you visit California today, I hope you will listen to the concerns of middle-class Californians about the higher federal income taxes they would have to pay under the proposals approved earlier this week by your Advisory Panel on Federal Tax Reform. After you listen to Californians, I hope you will reject the panel's recommendations for capping the mortgage interest deduction and eliminating the deduction for state and local taxes.

The panel's recommendations are a double-barreled blast aimed squarely at California and the middle class. Far more than most other American taxpayers, middle-class Californians depend on those deductions. In the 2002 tax year, the latest year for which figures are available, 5.9 million California taxpayers claimed $52.3 billion in deductions for state and local taxes paid, 17 percent of the national total of $308.7 billion, saving more than $13 billion in federal taxes, or an average of $2,200 apiece. They took an even larger share of mortgage interest deductions, claiming $61 billion in deductions and saving around $15 billion in federal taxes.

Some members of your tax reform panel claim that the panel's recommendations would not affect the overall distribution of the tax burden. They ignore the disproportionate impact their recommendations would have on California and on middle-class families.

One in every four Californians filing a federal tax return takes a deduction for state and local taxes paid; one in three takes a deduction for mortgage interest. Those figures rise to nearly half for the 8 million California middle-class taxpayers with adjusted gross incomes of between $20,000 and $100,000 a year.

Under one of your panel's recommendations, the mortgage interest deduction would be turned into a 15 percent tax credit capped at the ceiling for Federal Home Administration (FHA) mortgage insurance in the taxpayer's county. Today, that cap is $312,895 in much of the state, including the Bay Area, Los Angeles, Sacramento, and San Diego, far below the price of a

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median-priced home in the state, which was $568,890 for single-family homes sold in August. By contrast, the cap in your home state of Texas would be $172,000, compared to a median home price of $140,000.

Here’s what that recommendation would mean in California: For example, for a family purchasing a median-priced home, earning $90,000 a year, and paying taxes in the 25 percent bracket, the panel’s proposal would result in a federal tax increase of around $4,900 a year. But the proposal would have much less or no impact in other parts of the country, where the ceiling on mortgage interest would be near or above the median home price. This recommendation of your panel would hit hard at middle-class families in California.

Your panel’s recommendation would put new burdens on our state. In 2003, the latest year for which figures are available, Californians sent Washington $50 billion more in federal taxes than the federal government spent in the state. For each dollar Californians paid in federal taxes, the federal government spent only 79 cents here, the largest gap in California’s recent history, according to the nonpartisan California Institute for Federal Policy Research. Since 1994, California’s negative balance of payments with Washington has grown tenfold, from $5 billion to $50 billion, with the pace accelerating since you took office.

Members of your tax panel say the middle-class tax increases they recommend for California would be offset by the proposed elimination of the federal Alternative Minimum Tax (AMT). But in 2002, the tax savings Californians received from the deductions proposed for elimination dwarfed the $2.2 billion they paid in AMT, more than 90 percent of which was paid by taxpayers with adjusted gross incomes over $100,000.

While the AMT needs to be fixed so that it does not encroach on middle-class families, this goal can be accomplished in the same way that California has remedied its own AMT problem – by indexing the AMT for inflation and adjusting the tax so families with more children do not get penalized. As a result of these changes in California, in 2002, only 9,825 taxpayers paid the California AMT, less than one-tenth of 1 percent of filers. You and Congress could easily do the same thing without adopting your panel’s recommendations to make changes that would punish California and the middle class.

Again, I urge you to reject the recommendations of your tax reform panel that would do so much damage to California and its middle-class families.

Thank you for your consideration.

Sincerely,

Phil Angelides
California State Treasurer